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SUBJECT: VIETNAM ECON HIGHLIGHTS: LIFTING CAPS ON RICE EXPORTS AND
DEPOSIT RATES, NUCLEAR POWER PLANS

REF: A) HANOI 394 ("Vietnam Cutting Rice Exports");
B) HANOI 498 ("Impact of Rising Food/Commodity Prices");
C) HANOI 297 (Vietnam Econ Highlights 3/13)

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11. (U) This cable is part of an ongoing series on developing
economic stories in Vietnam.

RICE EXPORT CAPS MAY BE LIFTED

12. (U) Agriculture and Rural Development (MARD) Minister Cao Duc
Phat said that Vietnam may lift its ban on new rice export contracts
beginning in early July, according to local press reports (REFS A
and B). According to Minister Phat, Vietnam has contracts to export
2.4 million tons of rice to date, or nearly 70 percent of its 3.5
million-ton sales target for the entire year. He added that Vietnam
intended to increase rice production to 22.6 million tons by 2010
and
to 23.8 million tons by 2020 just to meet the demands of a growing
population, estimated to be 98.6 million people by 2020. In 2007,
Vietnam produced 21.5 million tons of rice and had a population of
85 million.

DONG DEPOSIT RATE CAP SCRAPPED

13. (U) The State Bank of Vietnam (SBV) scrapped the 12 percent
ceiling rate on Dong deposits on May 17, allowing banks to set their
own rates within defined bands to help increase liquidity. Banks
now can fix their own rates on Dong deposits and lending, provided
their rates are not 150 percent above a base rate to be announced
monthly by the SBV. Since the SBV recently introduced the 12
percent base rate, the de facto deposit rate cap and lending rate
cap are both currently 18 percent. According to the SBV, the
current 18 percent lending rate will not cause major changes to
credit growth and money markets. The SBV also raised the
refinancing rate on loans to commercial banks to 13 percent, up from
the previous rate of 7.5 percent. The discount rate also was
increased from 6 percent to 11 percent. According to the SBV, this
mechanism creates a corridor between the refinancing rate and the
discount rate that will help regulate the interbank market rates.

14. (SBU) In a meeting last week with ConGen HCMC, a well respected
Vietnamese ex-IMF official explained why the cap was having a
negative impact on liquidity. In his opinion, the GVN's interest
rate policies were squeezing the banking system dry but failing to
reduce the money supply. Instead, the low (compared to inflation)

cap on deposits drove potential depositors onto the street in search of a better return on their money (by purchasing gold or real estate, for example), thereby increasing the M1 money supply. Because banks didn't have money to lend (since depositors weren't putting money in) and because lending rates were controlled, what lending was taking place was largely "directed" lending to SOE's rather than market lending. Among the negative consequences of this combination of policies was that many importers and exporters were left unable to secure vital short-term trade financing. Many manufacturers requiring financing to purchase inputs faced a similar problem.

GVN GOES NUCLEAR IN SEARCH OF ELECTRIC POWER

15. (U) The GVN is moving forward with a detailed roadmap for development of nuclear power plants designed to generate electricity by 2020. According to the Ministry of Industry and Trade's (MOIT) Energy Department, the National Assembly will pass a law on nuclear energy in early June, and the GVN will publicize the national nuclear energy development strategy later that month. MOIT will be looking to hire foreign consultants later this year or in early 2009 to prepare pre-feasibility studies, after which the GVN will have an open tender for construction contracts. Plans are to begin construction of two plants in 2015. Each plant will have a capacity of 2,000 megawatts. According to MOIT officials, Westinghouse-Toshiba, Arera-Mitsubishi, and General Electric-Hitachi have already expressed interest in bidding. Last week, the Vietnam Atomic Energy Commission sponsored an exhibition on the development of civilian nuclear power that attracted participants from Russia, China, Japan, France and South Korea.

FOREIGN WORKERS FLOCKING TO VIETNAM

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16. (U) The number of foreigners working in Vietnam has soared in the past few months after the GVN lifted restrictions hiring foreign workers. By the end of March there were 67 percent more foreigners working for enterprises in Viet Nam than there were in December 2007, according to online recruiting agency Vietnamwork.com. Predictably, the biggest centers of foreign recruitment are Ho Chi Minh City, Hanoi and Danang, in that order. The hottest employment opportunities for foreigners were in the securities industry and the financial sector. The influx of foreign workers and expertise is helping to provide relief for the over-tapped local labor market.

MOBIFONE CONNECTS WITH YAHOO

17. (U) Vietnamese telecom company VMS-MobiFone and Yahoo signed on May 8 a cooperation agreement to launch a joint search service on mobile phones named oneSEARCH. MobiFone and Yahoo hope to tap in to growing demand for mobile search services. To ensure service quality, MobiFone has upgraded its network to serve over 15 million users and plans to raise the capacity to 25 million customers.

SETTING THE RECORD STRAIGHT ON MOBILE SUBSCRIBERS

18. (U) The Ministry of Information and Communications (MIC) is auditing the number of subscribers of the major mobile telephone networks, and the results of the audit will be made public. Thus, MIC hopes to settle competing claims by mobile networks on who has the highest number of subscribers. The inaccurate statistics of subscribers arose in part because the four major networks (MobiFone, Viettel, VinaPhone and S-Fone) use different methods of calculation. The other three providers: HT Mobile, GTel and EVN Telecom are not subject to this review because of their modest number of subscribers, and in the case of G-Tel, because it has not yet begun to offer services.

VIETNAM OKS AIRLINE INSURANCE COMPANY

¶9. (U) The Ministry of Finance has approved the establishment of the Vietnam Airlines Insurance (VNI) Company with initial capital of \$31.2 million to provide insurance services for air transport as well as marine and land transit, accident insurance and other non-life insurance services. VNI's founding shareholders include Vietnam Airlines, the Vietnam Coal and Mineral Industries Group and Vietnam Machinery Installation Corporation, among others.

WORK BEGINS ON \$6 BILLION OIL REFINERY

¶10. (U) On May 10, builders broke ground for the construction of the Nghi Son Refinery and Petrochemical Complex, in northern Vietnam. State-owned PetroVietnam holds a 25.1 percent stake in the refinery and petrochemical complex, while Japanese refiner Idemitsu Kosan Co. and Kuwait Petroleum International hold 35.1 percent each, and Japan's Mitsui Chemicals holds 4.7 percent. The first stage of the country's largest- ever construction project will cost an estimated \$6 billion. The plant is scheduled to go into operation by 2013. Its main products will include liquefied petroleum gas, non-lead petroleum, diesel oil, kerosene, and jet oil. When operational in 2013, the refinery will process 200,000 barrels of oil a day, or 10 million tons a year. With the completion of the second stage, the complex's capacity will double, although a date for that completion has not been announced (REF C).

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